

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR)  
REGULATING RATES AND CLASSES FOR)  
MARKET DOMINANT PRODUCTS)

Docket No. RM2017-3

**COMMENTS OF THE EMA**

**March 1, 2018**



February 28, 2018

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

**RE: STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET DOMINANT PRODUCTS, DOCKET NO. RM2017-3**

FOR THE ATTENTION OF POSTAL REGULATORY COMMISSIONERS

Robert G. Taub, Chairman  
Tony Hammond, Vice Chairman  
Mark Acton, Commissioner  
Nanci E. Langley, Commissioner

Please see the attached research study results in response to the recommendations by the PRC after the statutory mandated review of the system for regulating rates and classes for market dominant products that was first established in 2006 by the Postal Accountability and Enhancement Act (PAEA). As commissioned by EMA, InfoTrends, a division of © Keypoint Intelligence LLC, conducted an independent, nationally based, and statistically valid (with a 95% confidence level) primary research study with very large mailers to understand their reaction to PRC's proposed rate structure. This research studied the mailers' response to the following proposed rate increases: CPI, CPI plus 2%, and CPI plus 3%. This research also reviewed the corresponding potential impact on mail volume.

**Key Findings – Mail Volume Declines and Job Losses**

- When asked about the likely impact on mail volumes if the various ranges of postal rate increases were to be implemented, the percentage of companies indicating a significant decrease in mail volume ranging from 13% (CPI) to 20% (CPI + 2%) to finally 28% (CPI + 3%).
- About 34% of companies expect to decrease their mail volumes with a postal rate increase tied to the CPI inflation rate alone. In response to the PRC proposal, at CPI + 2%, that sentiment grows to 41%, and with CPI + 3%, it rises further to 45% who expect to decrease mail volumes.
- The research study concluded that mail volumes would dramatically decrease by as much as 4.3% over the next five years in direct response to the PRC proposal.
- Additional consequences are that the proposed postal rate increases would result in job and revenue losses. Twenty-six percent of enterprises stated that their organization would experience layoffs at their company with an estimate of 36,000 total jobs lost. Twenty-eight percent of enterprises also reported that they expect their company would experience decline in revenues.
- Potential postal rate increases need to be weighed against a likely increased level of digital diversion to determine if increased revenues at the per mail piece level would offset the decline from total mail volume.

Based on findings from this study, the EMA strongly believes that the current rate cap system must be preserved in the future ratemaking processes in order to preserve mail volume and jobs in the marketplace.

Sincerely,

A handwritten signature in black ink, appearing to read "Maynard H. Benjamin".

Maynard Benjamin  
President and Chief Executive Officer, EMA



# Results of a Research Study with Large U.S. Mailers that Explores Mail Volume Impact Anticipated as a Result of PRC's Proposed Rate Structure

## EMA's Executive Summary

### Introduction

The Postal Regulatory Commission's (PRC) rate proposal, if approved, would permit the United States Postal Service (USPS) to raise rates beyond the current economic CPI index by an additional 2% per calendar year for each of the first five full calendar years following the effective date. In addition, the proposal would allow the USPS to raise rates by another 1% (so CPI plus 2% plus 1%), contingent on the Postal Service meeting or exceeding an operational efficiency-based standard and adhering to service standard quality criteria.

Due to the potential impact of the PRC's recommendation on mail volume, and also the mailing industry, EMA engaged InfoTrends, a division of Keypoint Intelligence LLC, to conduct an independent, nationally based, and statistically valid (with a 95% confidence level) primary research study with very large mailers to understand their reaction to PRC's proposed rate structure. This research studied the mailers' response and the potential corresponding impact on mail volume to the following proposed rate increases: CPI, CPI plus 2%, and CPI plus 3%.

### Mailers' Current Concerns

The study found that for 2017, the print and mail communication channel accounted for an estimated 35% of total communication volumes sent through a range of channels, inclusive of email, mobile, social media and company webpages. Due to budgets, both enterprises and public sector entities are pushing aggressively to drive communication strategies towards digital channels. Not only does this trend drive email volume, it also fuels significant investments in mobile, social media and web platforms. When asked what the top barriers to sending communications to prospects and customers via the U.S. Postal Service, factors most frequently selected included: 1) high total end-to-end costs, 37%, 2) time-consuming to execute a mail campaign, 32%, and 3) concerns about future rate increases, 31%.

### Mailers' Responses to the PRC Recommendations

Study participants were provided a succinct description of the PRC's Notice of Proposed Rulemaking, and were then asked a series of questions to measure their level of concern and likely reactions.

1. How concerned their institutions would be for each of the three levels of postal rate increase options: CPI inflation rate, CPI plus 2%, and CPI plus 3%?
2. What would be the impact of the volume of mail going through the U.S. Postal Service?

What becomes evident is that the percentage of companies that become very concerned goes up significantly with the level of the rate increase. Whereas 15% of companies were very concerned with a postal rate increase tied to only the CPI inflation rate, the percentage jumps to 28% when the potential rate increase is the CPI inflation rate plus an additional 3%.

In addition, when asked about the likely impact on *mail volumes* if the various ranges of postal rate increases were to be implemented, the percentage of companies indicating a *significant decrease* in mail volume jumps from 13% (CPI) to 20% (CPI + 2%) to finally 28% (CPI + 3%). This provides a clear indication that if the postal rate increases were to go into effect, the push from print and mail budgets to digital channels will increase. As a result, a significant number of mailers are likely to reduce mail volumes being sent through the Postal Service.

### **Loss of Mail Volumes Due to PRC Proposal**

As the rate increase rises, so does the percentage of the mailers that project an actual decline (slight or significant) in their mail volumes as a direct result.

- With a 2% increase in the postal rate, 34% of mailers expect to reduce mail volumes.
- With CPI plus 2% increase in the postal rate, 41% of mailers expect to reduce mail volumes.
- With CPI plus 3% increase in the postal rate, 45% of mailers expect to reduce mail volumes.

Furthermore, for the mailers that project an additional mail volume reduction, *expected average decline in mail volume will more than double from 2.1% to 3.2% to 4.3% with the highest rate increase.*

### **Loss of U.S. Jobs and Sales Revenue**

Another ripple effect of the proposed postal rate increases is related job losses and revenue among mailers.

- 26% of enterprises state that their organization would experience layoffs at their company. Applying these statistics to the U.S. Census data that provides the number of firms with 500 or more employees within Finance and Insurance, Healthcare and Social Assistance, Retail Trade, Wholesale Trade, Telecommunications and Utilities, highlights that over 3,000 firms could be impacted by layoffs, with a potential of over 36,000 mailing-related positions being terminated.
- 28% of enterprises also reported that they expect their company would experience a decline in revenues.

It should also be noted that the USPS impacts many workers, since more than 73% of mail industry jobs depend on a USPS-centered delivery infrastructure. The USPS really is the core of the U.S. mailing industry. The U.S. mailing industry consists of 7.5 million mailing industry jobs – 6% of the nation’s total jobs – and contributes to the economy with \$1.4 trillion in sales revenue and 4.6% of the U.S. total output.

### **Methodology**

InfoTrends wrote and fielded a web-based survey of enterprise, government, and education respondents to examine the potential impact of the PRC’s recommendations, if they were to be implemented. The sample size was 380 respondents, which provides for a 95% confidence level, with a confidence interval of +/- 5%.

In order to qualify for, and screen into the survey, respondents had to be from mid-size to large organizations. They also had to have the following qualifications:

- Responsibilities that influence customer communications (i.e. marketing, billing, customer care and/or regulatory communications), and
- Responsibilities that oversee print and mail volumes, and be knowledgeable/very knowledgeable of their company’s use of the U.S. Postal Service, inclusive of mail volumes and likely impact of postal rate increases, and be part of organizations that send a minimum of 500,000 mail pieces annually through the U.S. Postal Service.

For total respondents, the mean number of mail pieces sent annually is 12.3 million, reflecting the fact that the sample is comprised of high-volume mailers.

### **Sources:**

- 1) InfoTrends, a division of Keypoint Intelligence LLC, Assessing the Future of the U.S. Mailing Industry, 2018
- 2) EMA Foundation’s 2015 U.S. Mailing Industry Jobs and Revenue Study

**ONE DOCUMENT ATTACHED**



**KEYPOINT**  
INTELLIGENCE

| *InfoTrends*

# PRIMARY RESEARCH

## **EXPLORING MAIL VOLUME IMPACT FROM THE PRC'S PROPOSED RATE STRUCTURE**

A SURVEY OF MAJOR MAILERS IN THE U.S.

FEBRUARY 2018





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## Executive Summary

In 2017, printed documents delivered through the mail accounted for an estimated 35% of total communication volume sent through all channels for the major mailers that we surveyed. Though communication through email, mobile, social media, and company webpages have become increasingly ubiquitous, print & mail continues to be an important part of the overall mix. Nevertheless, businesses' budgets for mailed communications (including bills & statements, marketing mail, customer care, and regulated correspondence) are under constant pressure in the face of cannibalization from digital communication methods.

This study, which was based on a survey of 380 U.S. business respondents that have influence over USPS mail volumes, was designed to examine the likely impact of the Postal Regulatory Commission's (Commission's) recommendations on business mailers. To that end, Keypoint Intelligence – InfoTrends provided participants with a succinct description of the Commission's Notice of Proposed Rulemaking and asked them a series of questions to measure their level of concern and ascertain their likely reactions. The study found that the percentage of very concerned companies increased significantly as the level of the potential postal rate increase rose. For example, 15% of companies were very concerned with a postal rate increase tied to the Consumer Price Index (CPI) inflation rate alone, but 28% said they would be very concerned about a potential rate increase that included an additional 3% over the CPI inflation rate.

Also, when asked how the implementation of a range of postal rate increases would likely impact their mail volumes, the percentage of companies predicting a significant decrease jumps from 13% (CPI) to 20% (CPI + 2%), and finally to 28% (CPI + 3%). These responses suggest that if the postal rate increases were to go into effect, the strong tail wind diminishing print & mail budgets in favor of digital channels would grow even more aggressive, resulting in mailers reducing the volume of communications they send through the U.S. Postal Service (USPS).



## Key Findings

- ♦ Survey respondents averaged 12.3 million mail pieces each sent via the USPS in 2017
- ♦ Print & mail accounted for an estimated 35% of total communications volume, with digital channels making up the other 65% of volume
- ♦ Thirty-five percent of mailers responding to our survey indicated that they consider print & mail a valuable channel and will continue to use it while they await the Postal Regulatory Commission's decision on postal rate increases
- ♦ Responding enterprises and public sector entities communicate by mail because they believe it is the most effective channel, it provides the best response rates, it offers better control of cost per message, and because it is the recipient's preference
- ♦ Primary barriers to communicating via the USPS include high total end-to-end costs, the time-consuming nature of executing a mail campaign, concerns about future rate increases, and a lack of visibility into delivery and related metrics
- ♦ A postal rate increase of CPI plus 2%, (if implemented each of the five years), would lead to a 19% increase in postal rates, (assuming an inflation rate of 1.5%). If the postal rate increase were 3%, the resulting postal rate increase would be 25%.
- ♦ Fifteen percent of participating companies would be very concerned about a postal rate increase equal to the CPI inflation rate, but 28% say they would be very concerned about a potential rate increase that includes an additional 3% over the CPI inflation rate
- ♦ About 34% of companies say they would reduce mail volumes in response to a postal rate increase tied to the CPI inflation rate alone. At CPI + 2%, that sentiment grows to 41%, and at CPI + 3%, 45% of respondent companies anticipate a reduction in their mail volumes.
- ♦ While some companies expect to increase mail volumes despite postal rate increases, the anticipated average decline in mail volume due to the PRC's proposal goes from -2.1% at the CPI inflation rate, to -3.2% at CPI plus 2%, and to -4.3% at CPI plus 3%.
- ♦ Postal rate increases will result in layoffs in 26% of respondent companies, with a mean reduction of 12 employees per organization. If these survey results were applied to all US firms with 500 or more employees working within the Finance & Insurance, Healthcare and Social Assistance, Retail Trade, Wholesale Trade, Telecommunications and Utilities industries, over 3,000 firms could be impacted by layoffs, placing over 36,000 Americans working in mailing-related positions at risk of termination.





## Conclusions

Potential cost increases of 19% to 25% resulting from the Commission's recommendations would have a significant negative impact on the mailing industry, which is already reeling under competitive pressures. The USPS must improve its financial performance, but it must also manage the delicate balance of its pricing model, infrastructure, operational costs, and service performance. Market factors that should be examined when considering the Commission's recommendations include:

- ♦ Although the USPS may not exercise its authority to raise rates each year, many mailers will factor this risk into their future communication strategies and investment priorities. As a result, price increases of this nature could accelerate the transition to greater use of digital communications channels.
- ♦ Potential postal rate increases need to be weighed against a likely commiserate level of cannibalization from digital channels to determine if increased revenues at the per mail piece level would offset the overall decline in total mail volume.
- ♦ To be effective, postal rate increases must be matched by a reduction in the Postal Service's operational costs.

## Introduction

The Commission's rate proposal grants the USPS the option to raise rates beyond the current economic CPI index. If implemented, the USPS will be allowed to raise rates by an additional two percentage points per calendar year for each of the first five full calendar years following the effective date of these proposed rules. In addition, the Commission's proposal allows the USPS to raise rates by another percentage point contingent on the Postal Service meeting or exceeding an operational efficiency-based standard and adhering to service standard quality criteria. In total, under the Commission's current proposal, the USPS will have the capability to raise rates by the CPI Index rate plus 2% plus.

Due to the potential impact of the Commission's recommendation on mail volumes and the broader mailing industry, the EMA engaged InfoTrends—a division of Keypoint Intelligence LLC—to conduct an independent, nationally-based primary research study. Focused on assessing high-volume mailers' reactions to the Commission's proposed rate structure, the study surveyed mailers to learn what impact rate increases tied the CPI rate alone, CPI plus 2%, and CPI plus 3% will likely have on their mail volume.



## Methodology

InfoTrends wrote and fielded a web-based survey of enterprise, government, and education respondents to examine the potential impact of the Commission's recommendations, if they were to be implemented. The survey was designed to be taken in a mean time of 15 minutes. The sample size is 380 respondents, which provides a 95% confidence level, with a confidence interval of +/- 5%. For respondents to qualify for the survey, they had to:

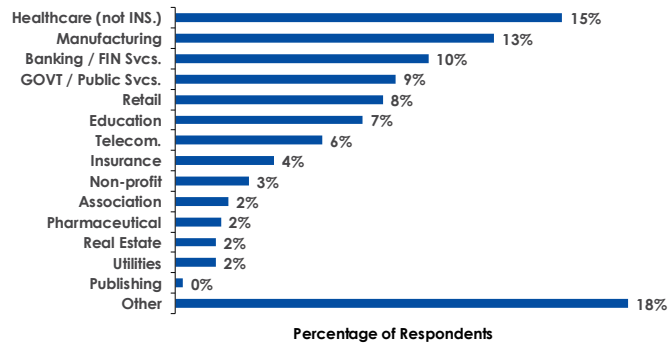
- Be mid-size to large organizations
  - Organizations with 245 to 499 employees were limited to less than 10% of the sample
  - Organizations with 500 to 999 employees were limited to less than 20% of the sample
  - Organizations with 1,000 or more employees accounted for over 70% of the sample
- Have responsibilities that influence customer communications (i.e. marketing, billing, customer care and/or regulatory communications)
- Have responsibilities that oversee print & mail volumes, and be knowledgeable/very knowledgeable of their company's use of the USPS, inclusive of mail volumes and the likely impact of postal rate increases
- Be part of organizations that send a minimum of 500,000 mail pieces annually through the USPS



Figure 1 provides the concentration of respondents by vertical industry. The sample includes broad representation, but reflects the concentration expected in industries comprised of high-volume mailers (e.g. healthcare, banking/finance, manufacturing, public sector and retail).

**Figure 1: Sample Size by Vertical Industry**

Q1: Which of the following best describes your organization's primary industry?

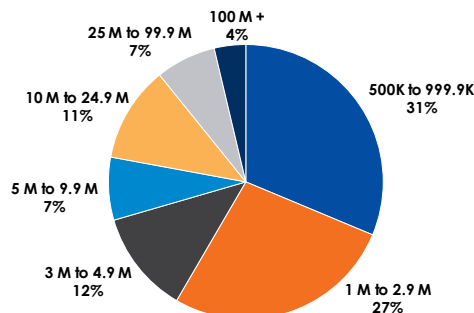


N = 380 U.S. business respondents with responsibilities over USPS mail volumes  
Source: Assessing the Future of the U.S. Mailing Industry, Keypoint Intelligence - InfoTrends, 2018

Figure 2 shows the average annual ranges of mail piece volume respondent organizations send through the USPS. For total respondents, the mean number of mail pieces sent annually is 12.3 million, reflecting the fact that the sample is comprised of high-volume mailers.

**Figure 2: Average Mail Piece Volumes Sent Through the U.S. Postal Service**

Q8: Approximately, how many mail pieces did your company send via the USPS in 2017?  
**Mean: 12.3 Million**



N = 380 U.S. business respondents with responsibilities over USPS mail volumes  
Source: Assessing the Future of the U.S. Mailing Industry, Keypoint Intelligence - InfoTrends, 2018

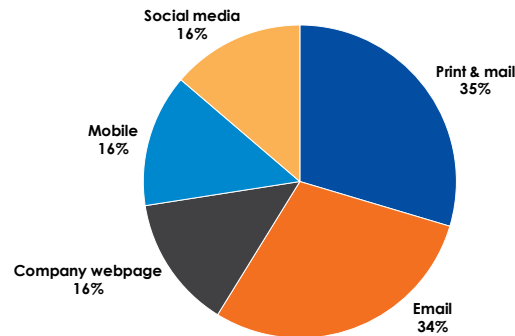


## Key Findings

The study found that print & mail accounted for an estimated 35% of total volumes sent through a range of communication channels in 2017, inclusive of email, mobile, social media and company webpages (See Figure 3). The email channel accounted for the second highest volume at 34%.

**Figure 3: The Percent of Mail Volume Sent Through Various Communication Channels**

Q16: For 2017, approximately what percentage of the communications sent to your customers and prospects was transmitted through the following channels?

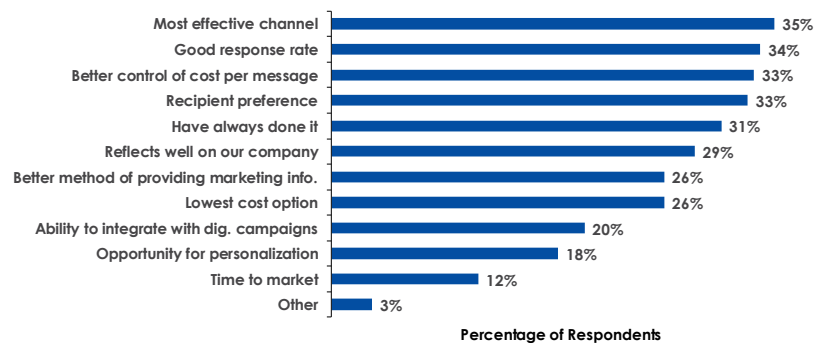


N = 380 U.S. business respondents with responsibilities over USPS mail volumes  
Source: *Assessing the Future of the U.S. Mailing Industry*, Keypoint Intelligence - InfoTrends, 2018

Factors that continue to drive use of mail and the U.S. Postal Service are numerous. As Figure 4 demonstrates, mailers use this medium for a variety of reasons, with leading drivers including the belief that it is an effective channel, it provides good response rates, there is a controllable cost per message, and that it reflects well on the company. In short, mailers continue to believe in the value-proposition of the U.S. Postal Service.

**Figure 4: Top Three Reasons for using the U.S. Postal Service**

Q22: What are the top THREE reasons why your company sends communications to customers and prospects via the USPS?



N = 380 U.S. business respondents with responsibilities over USPS mail volumes  
Source: *Assessing the Future of the U.S. Mailing Industry*, Keypoint Intelligence - InfoTrends, 2018

Nevertheless, budgets for mailed communications are under pressure. Both enterprises and public sector entities are aggressively pursuing digital communication strategies. Not only



does this trend drive email volume, it also fuels significant investments in mobile, social media and web platforms for all forms of customer communications, including statements & bills, marketing mail, customer care, and regulatory information. Other barriers to sending communications to prospects and customers via the USPS include:

- High total end-to-end costs, 37%
- Time-consuming to execute, 32%
- Concerns about future rate increases, 31%
- Lack of visibility into delivery and related metrics, 31%

### Inherent Risks of the Commission's Recommendations

Another key objective of the study was to examine the likely impact of the Commission's recommendations. To achieve this, participating mailers were provided a succinct description of the Commission's Notice of Proposed Rulemaking and were then asked a series of questions to measure their level of concern and likely reactions.

Table 1 tabulates mailers' responses when they were asked:

- How concerned their institutions would be for each of the three levels of postal rate increase options, (CPI inflation rate, CPI plus 2%, and CPI plus 3%)
- What impact these increases would have on the volume of mail they send through the USPS

It is evident from the results that the percentage of companies who report that they would be very concerned with a postal rate increase is directly linked to the level of the increase. While 15% of companies were very concerned with a postal rate increase tied to only the CPI inflation rate, 28% were similarly concerned with a potential rate increase equal to the CPI inflation rate plus an additional 3%.

Moreover, when asked about the likely impact on their mail volumes if the various ranges of postal rate increases should be implemented, the percentage of companies estimating a significant decrease jumps from 13% (CPI) to 20% (CPI + 2%) and finally to 28% (CPI + 3%). These results provide a clear indication that if the postal rate increases were to go into effect—particularly those on the higher end of the spectrum—then the major factors already driving resources away from print & mail budgets and toward digital channels will grow even stronger. As a result, a significant number of mailers are likely to reduce the volume of communications they send through the U.S. Postal Service.



**Table 1: Likely Reaction to Postal Rate Increases**

	CPI	CPI + 2%	CPI + 3%
Level of Concern			
Not concerned	8%	6%	6%
Only limited concern	35%	29%	27%
Uncertain	13%	17%	14%
Concerned	29%	31%	25%
Very concerned	15%	17%	28%
Likely impact on mail volume			
Significant decrease	13%	20%	28%
Slight decrease	35%	28%	25%
Flat	34%	34%	26%
Increase (i.e. pre-planned)	17%	17%	18%
Don't know	2%	3%	3%

Base: All 380 respondents

To better examine how mailers would react to a postal rate increase equal to the CPI inflation rate plus 3%, study participants were asked to pick three statements that best reflect how their company would react to its implementation. The most-selected response, at 38%, was "Policies would be put in place to reduce mail volumes" (see Figure 5). Note, however, that approximately one-third of mailers indicated that they will continue to use print & mail because it is a valuable channel, and they will wait and see what postal rate increases are announced before taking action. This correlates with the findings in the table above showing a portion of the market plans to increase mail volumes regardless of the proposed rate increases. Nevertheless, on balance, the selected statements rising to the top further demonstrate that the volume of mail going through the USPS will most likely drop if the highest-level rate increase is implemented.

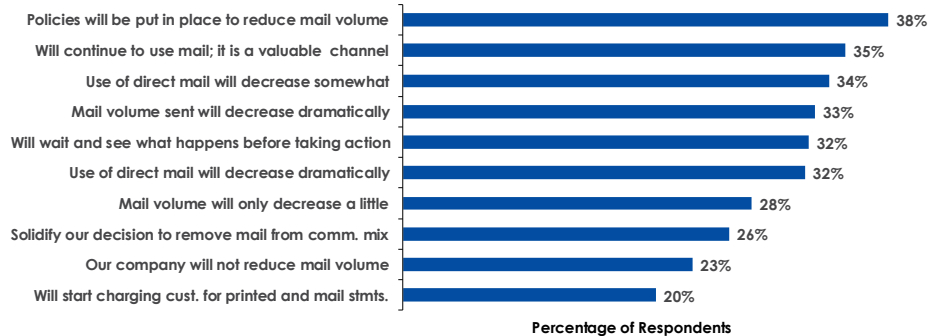
Selected statements that illustrate this point include:

- Use of direct mail will decrease somewhat, 34%
- Mail volume sent will decrease dramatically, 33%
- Use of direct mail will decrease dramatically, 32%



**Figure 5: Enterprise Reaction to a CPI Inflation Rate Plus 3% Postal Rate Increase**

Q45: Please pick THREE phrases from the list below that best describe how your company would react if the USPS had the option of increasing postal rates by 3% a year, on top of the increase tied to the CPI.



N = 380 U.S. business respondents with responsibilities over USPS mail volumes

Source: *Assessing the Future of the U.S. Mailing Industry*, Keypoint Intelligence - InfoTrends, 2018

To help measure the actual impact on total mail volumes, mailers were asked to assume that over the next five years the U.S. Postal Service increased rates by 2%, then CPI plus 2%, and finally CPI plus 3%. They were then asked again if they would expect their mail volumes to increase, remain flat, or decrease over that timeframe, and what the likely change would likely be.

Table 2 summarizes the results of the study findings on these questions. As the rate increase rises, so does the percentage of mailers projecting a decline in mail volumes as a direct result. For example, with a 2% increase in the postal rate, 34% of mailers expect their mail volumes to decline. The percentage of mailers rises to 41% if the rate increase is CPI plus 2%. Nearly half (45%) say they would reduce mail volume if the postal rate increase were CPI plus 3%. Furthermore, the expected average decline in mail volume goes from - 2.1%, to -3.2%, and finally to -4.3% with the highest rate increase.



**Table 2: Expected Impact of Postal Rate Increases Over Next Five Years**

Postal Rate Increase:	2%	CPI + 2%	CPI + 3%
Expected mail vol. change			
Decrease	34%	41%	45%
Stay the same	48%	43%	41%
Increase (i.e. pre-planned)	18%	16%	14%
Expected percent change			
	- 2.1%	- 3.2%	- 4.3%

Another ripple effect of the proposed postal rate increases is related job losses among mailers. Twenty-six percent of enterprises stated that their organization would experience layoffs at their company if a postal rate increase of either 2% or 3% on top of the inflation rate were implemented. The expected mean reduction in head count at their company is 12 employees. If applied to the U.S. Census' total number of firms with 500 or more employees within the Finance & Insurance, Healthcare and Social Assistance, Retail Trade, Wholesale Trade, Telecommunications and Utilities verticals, over 3,000 firms could be impacted by layoffs, with potentially over 36,000 mailing-related positions subject to termination. Moreover, 28% of enterprises also reported that they expect their company would experience a decline in revenues.

### Potential Impacts on the U.S. Postal Service

While it is important that the USPS improve its financial performance, it must also manage the delicate balance of its pricing model, infrastructure, operational costs, and service performance. If prices rise and the increase is not accompanied by significant operational improvements that reduce costs, then the higher per mail piece revenue may not be sufficient to offset the likely resulting mail piece declines stemming from the postal rate increase.

Figure 6 illustrates the increase in First-Class Presort Letter and Standard Mail postage if the Commission's recommendations were implemented in each of the five years. The calculations assume an average annual inflation rate of 1.5%, and use 2017 base year pricing from the U.S. Postal Service's *Revenue, Pieces and Weights* report. Looking at the recommendation of 2% postal rate increase authority plus the CPI inflation rate, the First-Class Mail pre-sort letters pricing would increase from \$0.38 in 2017 to \$0.45 in 2022. The five-year compounded annual growth rate (CAGR) of 3.5% translates into a total price increase of 19%. Using the 3% postal rate increase authority plus the CPI inflation rate, First-

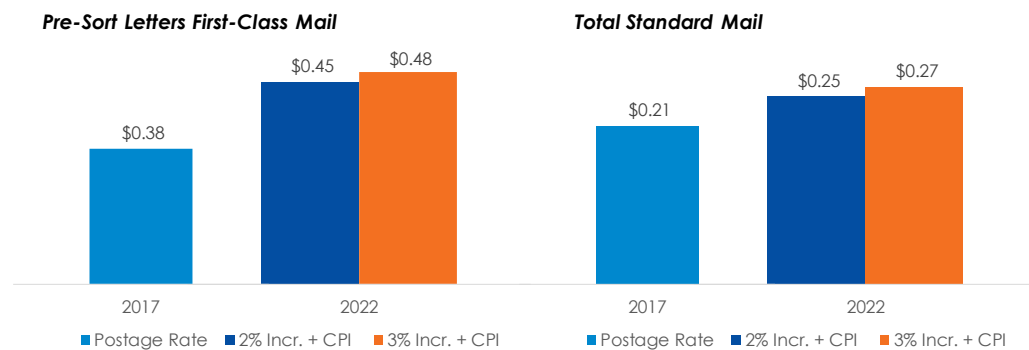




Class postage rates would increase to \$0.48, constituting a total increase of 25%. Total standard mail postage would increase from \$0.21 in 2017 to either \$0.25 (2% + CPI) or \$0.27 (3% + CPI), similarly representing a total increase in pricing of 19% and 25% respectively.

Although the U.S. Postal Service may not exercise its authority to raise rates each year, many mailers will likely factor this risk into their future communication strategies and investment priorities. As a result, price increases of this nature could accelerate the transition to greater use of digital communications channels. Looking at the fiscal year 2017 *Revenue, Pieces and Weights* report, First-Class mail piece volume in total declined 4%, First-Class Presort letters declined 3%, and total standard mail declined 3% from 2016. The study findings above illustrate that the Commission's recommendations could drive at least an additional 3% to 4% decline on top of the existing trendline, if not more. In short, if the market reacts negatively to potential postal rate increases of 19% to 25%, then mail volume decline could accelerate dramatically.

**Figure 6: Impact of Postal Rate Increase on Average Mail Piece Price**



Note: Base year average mail piece pricing derived from the U.S. Postal Service 2017 Fiscal Year *Revenue, Pieces and Weights* report  
Assumption: Average five year CPI inflation rate is 1.5%

Source: *Assessing the Future of the U.S. Mailing Industry*, Keypoint Intelligence - InfoTrends, 2018

## InfoTrends' Opinion

The U.S. Postal Service mail volumes face significant cannibalization from digital channels. This threat requires action that correctly balances the priorities of pricing, cost structure, and service levels. The Postal Regulatory Commission's recommendations on pricing authority over a five-year period from implementation carries with it important risks. Potential cost increases of 19% to 25% would have a significant impact on any market. Increases of this size within the mailing industry—which already suffers from competitive pressures—will likely accelerate the transition lower cost digital communications channels. The resulting mail volume declines could accelerate beyond an already negative trendline. If cost structures are not significantly reduced to offset diminishing mail volume, then the U.S. Postal Service runs the risk of even greater future revenue shortfalls.